

Message Text

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50/47

ACTION OPIC-12

INFO OCT-01 ARA-16 ISO-00 EB-11 AID-20 DRC-01 RSC-01 /062 W

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P 281445Z JAN 74

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC PRIORITY 6033

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C O R R E C T E D C O P Y (TEXT)

E.O. 11652: N/A

TAGS: EFIN, CS

SUBJECT: EMBASSY RECOMMENDATIONS ON ISSUE OF OPIC CONTRACTS

REF: (A) STATE 013304

(B) APPLICATION NUMBER 515-73-429

1. THE PROPOSED INVESTMENT OF MR. HOWARD B. ISAACSON, CAY RICA CATTLE COMPANY S.A. (REF. B) IS TO ESTABLISH A NEW COMMERCIAL VENTURE IN COSTA RICA WHICH WILL ENGAGE IN CATTLE RANCHING FOR BEEF PRODUCTION, AN INDUSTRY THAT HAS EXPERIENCED A RAPID RATE OF GROWTH IN RECENT YEARS, AND HAS EXCELLENT PROSPECTS FOR FURTHER DEVELOPMENT. ALTHOUGH THE COMPANY'S MARKET FOR THE CATTLE IT PRODUCES IS NOT DEFINED IN THE PROPOSAL, THE UNITED STATES IS UNDOUBTEDLY THE INTENDED MARKET (ALTHOUGH U.S. BEEF QUOTAS HAVE BEEN SUSPENDED, LEGISLATION REMAINS ON THE BOOKS AND THEY COULD BE REIMPOSED EASILY).

2. COSTA RICA COULD BENEFIT FROM THIS PARTICULAR INVESTMENT THROUGH INCREASED TAXES, EXPORT EARNINGS, AND TECHNOLOGY TRANSFER; HOWEVER, SUCH BENEFITS WOULD BE MARGINAL. THE INDUSTRY IS ALREADY WELL DEVELOPED AND AVAILABILITY OF INVESTMENT CAPITAL DOES NOT APPEAR TO BE A CONSTRAINT ON ITS FURTHER GROWTH.

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3. THE PROJECT APPARENTLY MEETS THE CRITERIA OF THE

GOCR IN DEVELOPMENTAL VENTURES FOR IT HAS ALREADY
GIVEN ITS APPROVAL.

4. CAY RICA CATTLE COMPANY S.A. WAS OFFICIALLY
REGISTERED WITH GOCR JUNE 20, 1973, AS A BRANCH OF
THE GRANDCAYMAN CORPORATION, INTERBANK HOUSE,
WEST BAY ROAD, GRAND CAYMAN ISLAND, B.W.I. ITS
REGISTERED CAPITAL WAS STATED AS \$6,000 AND WORKING
CAPITAL \$150,000. ADDITIONALLY, AND MORE IMPORTANT,
THE APPLICANT SEEKS POLITICAL RISK INSURANCE AGAINST
LOCAL GOVERNMENT EXPROPRIATION FOR AN INVESTMENT OF
\$500,000 OF WHICH MORE THAN HALF IS TO BE INVESTED IN
COSTA RICAN LAND.

5. THE EMBASSY BELIEVES STRONGLY THAT AS A MATTER OF POLICY
OPIC SHOULD AVOID INSURING LARGE LAND INVESTMENTS SUCH
AS THIS ONE. THE QUESTION IS NOT WHETHER THIS PARTICULAR
INVESTMENT WILL BE PROFITABLE OR NOT. WITH PRESENT
MARKET CONDITIONS--U.S. PRICES ARE MORE THAN 40 PERCENT
ABOVE LOCAL PRICES-- AND REASONABLY PRUDENT MANAGEMENT
ALMOST ANY CATTLE OPERATION TODAY IN COSTA RICA HOLDS
OUT PROSPECT FOR TURNING A PROFIT. HOWEVER, AT THE
SAME TIME, THERE ARE RISKS INVOLVED
WHICH BRING IN QUESTION THE PROPRIETY OF USG
ASSOCIATION AS AN INSURER. AS OPIC IS AWARE,
COSTA RICA IS OUTSTANDING FOR ITS HOSPITALITY TO
AMERICAN CITIZENS AND AMERICAN CAPITAL. AT THE SAME
TIME, LARGE SCALE PURCHASES BY AMERICANS OF LARGE
LAND TRACTS IN RECENT YEARS ARE A POTENTIAL SORE POINT
AND THERE IS ALREADY SOME SENSITIVITY LOCALLY OVER
SUCH HOLDINGS. AS A GENERAL RULE, WE WOULD NOT
POSE OBJECTIONS TO OPIC ASSOCIATION WITH SOUND AGRO-
INDUSTRY PROJECTS (INCLUDING THOSE RELATED TO THE CATTLE
INDUSTRY). LARGE LANDHOLDINGS, HOWEVER, ENTAIL A
SPECIAL ELEMENT OF POLITICAL RISK, WITH ONLY MARGINAL
EMPLOYMENT AND SOCIAL BENEFITS. OPIC'S ATTENTION MIGHT
ALSO BE INVITED TO THE FACT THAT GRAND CAYMAN IS A
NOTORIOUS TAX HAVEN.

6. IN VIEW OF THE POLICY CONSIDERATIONS SET FORTH IN
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PARAGRAPH 5 ABOVE, THE EMBASSY CANNOT RECOMMEND
FAVORABLE CONSIDERATION OF THIS APPLICATION.
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Message Attributes

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